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**From:**

**Sent:** Thursday, September 04, 2008 12:33 PM

**To:**

**Cc:**

**Subject:** RE: question on recurring item exception

Hi

I am not aware of any guidance addressing what is material under section 1.461-5(g)(4)(i) (consideration of the amount of the liability in absolute terms and in relation to the amount of other items of income and expense attributable to the same activity). However, there is a separate materiality requirement in (g)(4)(ii), which says a liability is material under the recurring item exception if it is material for financial statement purposes under GAAP (you may have already considered this). The legislative history of the recurring item exception provides:

If an item is considered material for financial statement purposes, it will also be considered material for tax purposes. For example, assume that a calendar-year taxpayer enters into a one-year maintenance contract on July 1, 1985. If the amount of the expense is prorated between 1985 and 1986 for financial statement purposes it should be prorated for tax purposes. If, however, the full amount is deducted in 1985 for financial statement purposes because it is not material under generally accepted accounting principles, it may (or may not) be considered an immaterial item for purposes of [the recurring item] exception.

H.R. Conf. Rep. 98-861. [REDACTED]